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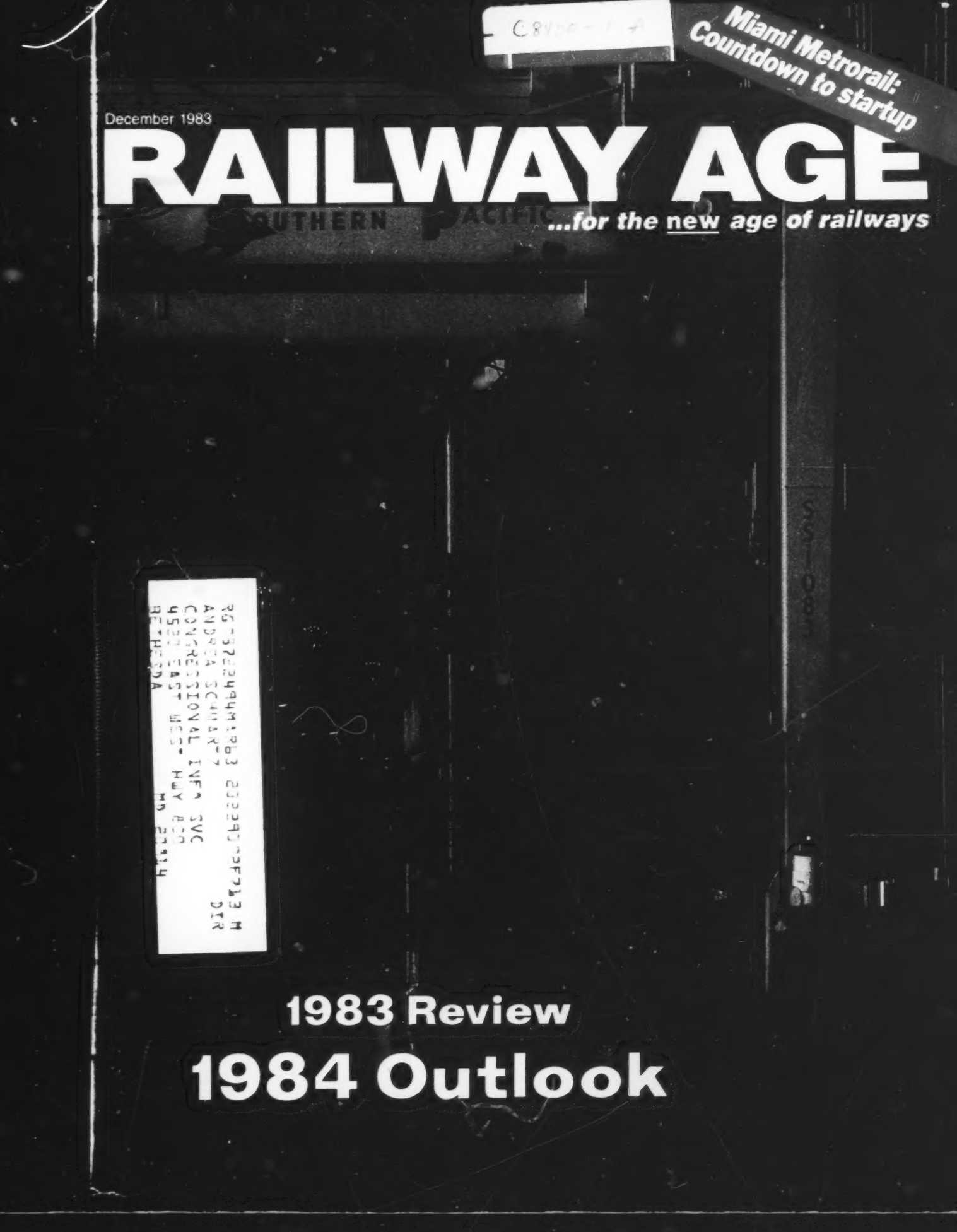
Miami Metrorail: Countdown to startup

December 1983

RAILWAY AGE

...for the new age of railways



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1983 Review

1984 Outlook

RAILWAY AGE
...for the new age of railways

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Inside

A happy new year? Yes—and no

LUTHER S. MILLER

The freight railroads will close the books on 1983 with a small profit, a wealth of experience in making ends meet during tough times, and high hopes for a happier new year. Nobody expects business in 1984 to go off the charts, but there is a reasonable expectation that a period of sustained and stable growth lies ahead. The railroad outlook as sketched by Senior Editor Gus Welty in this issue's cover story (p. 32) is one that should satisfy all but the most foolish optimists.

All, that is to say, except those equipment suppliers for whom the deep chill of recession lingers.

Worst hurt have been the builders of freight cars and freight-car components. They are coming out of a year that has seen only around 5,000 new cars delivered; they're looking at a new year that may see deliveries rise to 13,000—still nothing to write the stockholders about.

For locomotive builders, the picture is a little better, and for track and C&S suppliers, the picture is a lot better. Early indications are that plant spending will be up across the board.

As for the carbuilding business, the situation was eloquently summed up by one supplier who told Gus, "I keep seeing a light at the end of the tunnel—but the tunnel keeps getting longer."

Railroading: The long and the short of it

In the book-publishing world, you will find no shortage of railroad titles—especially if what turns you on are tomes celebrating, in glorious color and lugubrious prose, the past glories of passenger and steam railroading. Less easy to come by on the pre-Christmas lists are books relevant to present-day railroading; but there are two at hand which merit comment.

One is the 1983 edition of "The Economic ABZ's of the Railroad Industry." It contains the most complete and most recent statistical profile of Class I railroads available anywhere. It is a stapled document of some 120 pages, and it is not impressive in format; but don't judge this book by its cover. From the first chart (which mode moves how much freight) to the last table (average trips per year by car type), it is an invaluable and unduplicated source of information. It can be had for $25. Inquiries should be directed to Publications, Economics and Finance Department, AAR, 1920 L St., N.W., Washington, D.C. 20036.

The other book at hand is called "Starting a Short Line." It was written by R. Lawrence McCaffrey, Jr., and Peter A. Gilbertson, two lawyers with considerable experience in the field, and published in cooperation with the American Short Line Railroad Association. In 163 tightly-written, no-nonsense pages, it provides a wealth of guidance for shippers and others who are contemplating getting into the short-line business. It is available for $23 from the American Short Line Railroad Association, 2000 Massachusetts Ave., N.W., Washington, D.C. 20036.

Market Outlook

Equipment

Conrail: Ordered 60 new diesel-electric units from General Electric valued at $75 million, and 40 units from General Motors' Electro-Motive Division valued at $48 million, all for second quarter 1984 delivery (p. 25).

Norfolk Southern: Ordered 26 diesel-electric units from General Electric at an unspecified cost (p. 25).

People's Republic of China: Entered into an agreement with General Electric for the supply of 220 heavy-duty diesel-electric freight locomotives to be built at Eria, Pa. (p. 25).

Port Authority Trans-Hudson: Awarded a contract to Parsons, Brinckerhoff, Quade & Douglas to draw up technical specifications for rehabilitation of 248 PA-series cars that originally went into service between 1965 and 1972. Under an earlier contract, PBQ&D determined that major work was needed on trucks, propulsion control systems, door controls, public address systems, and floor components.

Facilities

New Jersey Transit: Has engaged Edwards and Kelcey, an engineering and planning firm based in Livingston, N.J., as prime consultant for design of the electrification and modernization of 16 miles of the North Jersey Coast Line (NJCL) from Matawan south to Long Branch. The project is estimated to cost $70 million to $80 million. Edwards and Kelcey performed a similar role in the electrification and modernization of the five-mile line north from Matawan to South Amboy; that section, which went into operation last year, marked the first new passenger-line electrification in New Jersey in more than 45 years. NJCL operates for 65 miles between Bay Head, N.J., on the Jersey Coast and Penn Station, New York City (including 20 miles in Amtrak's electrified Northeast Corridor). Completion of the new project will bring electrified service to passengers on the northern 50 miles of the route; diesel-hauled coaches will continue to service the southern end.

Freight cars and locomotives

	DELIVERED October 1983	October 1982	September 1983	Ten Months 1983	Ten Months 1982
Built new by carbuilders	736	650	458	4,210	14,536
Built new in RR shops	0	240	2	202	1,348
Built new—total	736	890	460	4,412	15,884
Rebuilt	0	147	0	100	1,186
TOTAL DELIVERED	**736**	**1,037**	**460**	**4,512**	**17,070**
Locomotives (new and rebuilt)	43	31	37	198	388
	ORDERED				
To be built new by carbuilders	642	134	416	4,806	5,841
To be built new in RR shops	0	750	0	2	750
To be built new—total	642	884	416	4,808	6,591
To be rebuilt	0	0	0	100	600
TOTAL ORDERED	**642**	**884**	**416**	**4,908**	**7,191**

ON ORDER AND UNDELIVERED

	November 1 1983	November 1 1982	October 1 1983	Average Backlog 1983	Average Backlog 1982
To be built new by carbuilders	3,368	4,710	3,756	4,050	8,575
To be built new in RR shops	0	573	0	28	858
To be built new—total	3,368	5,283	3,756	4,078	9,433
To be rebuilt	0	314	0	27	359
TOTAL ON ORDER	***3,368**	**5,597**	**3,756**	**4,105**	**9,792**
Locomotives (new and rebuilt)	128	86	158	121	155

*Due to revisions and cancellations of some orders, the November 1, 1983 backlog has been reduced by 294 cars.
Source: Transportation Division, AAR.

Estimated ownership—all revenue freight cars

October 1, 1983 vs. October 1, 1982

		Box	Covered Hoppers	Gondola	Hopper	Flat	Refg.	All Others	TOTAL
Class I RRs	1983	275,799	164,655	130,400	286,121	84,440	54,441	22,315	1,018,171
	1982	287,389	169,263	137,079	297,629	87,743	56,443	23,460	1,059,006
Class II & S&T Cos.*	1983	49,771	9,826	10,137	10,561	5,045	3,334	2,997	91,671
	1982	52,730	9,402	10,676	12,998	4,741	3,407	3,373	97,327
Railbox-Railgon	1983	15,089		3,998					19,087
	1982	24,930		3,999					28,929
RRO&C** Refgs.	1983						5,204		5,204
	1982						3,866		3,866
Private	1983	553	128,542	27,870	21,400	53,650	1,926	184,641	418,582
	1982	524	129,878	27,735	21,309	52,749	5,664	190,250	428,109
GRAND TOTAL	1983	341,212	303,023	172,405	318,082	143,135	64,905	209,953	1,552,715
	1982	365,573	308,543	179,489	331,936	145,233	69,380	217,083	1,617,237

*Class II railroads and switching terminal companies.
**Railroad owned and controlled refrigerator car lines.
Source: Transportation Division, AAR.

Market Indicators

DRI Railroad Industry Monitor

What can the railroad industry look forward to in 1984? Next year should be a good year for business, with housing starts averaging 1.7 to 1.8 million units and auto sales rising to 10.4 million. Industrial production will continue to grow, and recent strength in nonresidential construction and nondefense capital spending should continue into next year.

Rail traffic will reflect the strength of the economy. After a seasonal downturn in the first quarter, rail traffic should climb to an annual rate of 1.35 billion tons per year. This is 90 million tons above the 1982-83 rate, although still 8% below 1981. Grain traffic will fall sharply next year in the wake of this year's drought-reduced harvest, but substantial increases in coal and chemical traffic will make up for this loss.

	1983:2	1983:3	1983:4	1984:1	1983:2	1984:3	1984:4
Ecomonic Indicators (Annualized rates)							
Real GNP (% change)	9.7	7.9	5.4	5.1	4.7	4.4	3.4
Industrial Production (1967 = 1.0)	1.44	1.52	1.57	1.59	1.61	1.63	1.64
Housing Starts (mil. units)	1.68	1.79	1.67	1.69	1.78	1.85	1.72
Retail car sales (mil. units)	9.2	9.3	9.9	10.1	10.4	10.7	10.7
Raw steel production (mil. tons)	21.7	23.3	25.5	27.8	28.4	26.4	27.0
Total Class I Rail Traffic							
(millions of tons)	312.8	329.9	326.1	318.0	337.8	337.4	338.8
Key Commodities							
Grain	26.7	36.8	35.1	32.8	30.6	27.5	29.9
Coal	118.0	124.0	123.2	120.8	128.6	129.4	136.8
Pulp & paper	9.4	9.3	9.2	9.5	9.6	9.2	9.1
Chemicals	24.0	24.6	25.2	27.1	26.4	25.2	25.4
Motor Vehicles	5.3	4.7	5.5	5.4	6.3	4.8	5.7

Source: Data Resources, Inc., Nov. 12, 1983

Revenue freight carloadings

Commodity	Nov. 12 week	% change from 1982	Nov. 5 week	% change from 1982	Oct. 29 week	% change from 1982	Oct. 22 week	% change from 1982
Grain	29,763	14.7	33,624	17.1	30,259	5.3	30,322	26.1
Other farm products	5,009	(25.4)	5,516	(17.7)	5,615	(15.2)	6,255	31.0
Metallic ores	18,111	40.5	18,779	62.1	17,722	51.9	20,758	72.0
Coal	109,383	4.5	113,357	4.8	109,523	1.3	114,617	3.4
Crushed stone, gravel and sand	11,206	15.0	11,211	15.0	11,182	12.6	11,321	16.4
Nonmetallic minerals	11,225	17.4	11,597	31.0	13,347	43.7	12,805	35.7
Grain mill products	10,357	(10.9)	10,939	(8.4)	11,438	(4.9)	12,022	(3.5)
Food and kindred products	11,266	(11.6)	11,985	(10.6)	12,197	(12.0)	12,282	(9.0)
Primary forest products	15,034	0.2	15,431	5.1	15,020	2.4	14,904	0.3
Lumber and wood products (except furniture)	7,172	17.7	7,298	19.4	7,922	18.6	7,421	16.3
Pulp, paper and allied products	14,734	(2.1)	15,019	(4.5)	14,950	(8.1)	15,147	(3.9)
Chemicals and allied products	24,469	22.5	24,512	17.3	24,777	17.0	24,628	21.0
Petroleum products	4,686	4.7	4,900	7.4	4,744	(1.9)	4,797	0.8
Stone, clay and glass products	11,231	17.6	11,629	15.9	11,738	16.9	11,557	13.0
Coke	5,066	45.8	5,205	38.8	5,180	41.5	4,940	18.6
Metals and products	8,326	19.9	8,703	21.0	9,389	25.8	8,840	25.2
Motor vehicles and equipment	19,743	55.2	19,484	51.0	20,287	41.8	19,795	40.1
Waste and scrap materials	9,354	26.4	9,055	23.1	9,081	13.7	9,014	14.5
Forwarder and shipper assn. traffic	10,083	36.2	10,282	30.6	10,734	29.6	10,258	27.7
All other carloads	54,723	20.8	57,078	21.6	57,982	19.6	57,248	21.3
LCL traffic	261	(77.0)	300	(72.3)	262	(77.0)	286	(74.3)
Total Cars Loaded	**391,202**	**12.3**	**405,904**	**13.3**	**403,349**	**10.4**	**409,217**	**14.1**

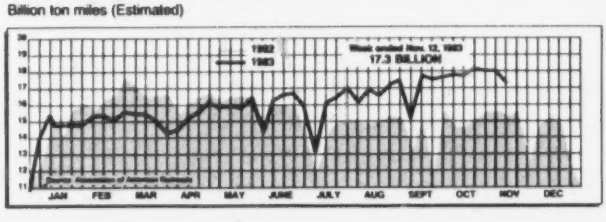
Estimated revenue ton-miles (billions)	1983	1982	% change from 1982
45 weeks	722.0	699.6	3.2

Piggyback loadings

Week ended	Cars loaded 1983	% increase from 1982	Trailers/ containers 1983	% increase from 1982
October 15	49,224	23.2	85,985	20.6
October 22	50,809	22.1	89,006	20.4
October 19	51,905	20.7	91,483	21.0
November 5	51,440	26.7	90,790	26.1
Cumulative total, 40 weeks	1,982,780	21.7	3,431,962	18.9

Rail freight traffic trends

Billion ton miles (Estimated)



1984 Outlook

Momentum at work

The traffic growth forecast for the new year will not be spectacular, but it will be stable. And as railroad prospects brighten, so will those of suppliers, though more slowly.

By GUS WELTY,
Senior Editor

Railroads are rolling into 1984 with what television sports analysts like to call "The Big Mo"—momentum.

Final figures on 1983 will show that railroad revenue freight ton-miles were up by at least 4%, on a carloadings increase of something like 1.5%.

Those increases may seem small. But they're not, considering that for almost all of first-half '83, ton-miles and loadings trailed 1982 totals. Not until June did the 1983 weekly totals climb above the graph-lines of '82. But, once the second-half surge began, it continued. And that surge is expected to continue into and through 1984.

The new year will have a couple of things going for it. One is that there is a natural force behind the now-growing economy, a force that seems likely to provide a sustainable growth pattern. A second is that 1984 is an election year, with the power sufficiently divided between the Executive and the Legislative branches that neither party can afford to do anything to send the economy into another tailspin.

• **Growth with stability.** Projections now are that there will be a continuation of the already-substantial gains in rail traffic through the early part of next year, with a possible tapering-off in the second half as the growth-rate percentages are figured against a bigger base. Richard E. Briggs, executive vice president of the Association of American Railroads, sees growth with stability, growth that may be more durable because of that stability.

Briggs has been right before, in forecasting and in interpreting trends, such as the one that saw TOFC/COFC traffic continuing to grow during the recent recession instead of dropping more precipitously than other traffic as had been the case in past economic downturns.

His and other analyses now are that trailer/container traffic, growing in '83 at a rate of about 20%, may not sustain that rate next year against the bigger base numbers. But a growth rate of 10% seems reasonable, if not actually conservative. Perhaps even more important, the outlook is that the profit margins on TOFC/COFC traffic may be going up, for several reasons. First, rail costs should come down as piggyback traffic is concentrated at more efficient terminals. Second, service improvements made possible in good part because of terminal improvements may justify higher rates. And third, rate adjustments may also be possible with the expected reduction in over-capacity in the motor-carrier industry.

Grain traffic looks good for '84, continuing a trend that began during second-half '83 despite lower plantings and a crop-destroying drought. Much will depend upon the shape of the export market, but the trends seem positive.

Chemical traffic has been up. So have loadings of lumber and wood products. Here, too, the trends seem positive.

• **A green light for auto traffic.** Loadings of motor vehicles and equipment have also been showing increases not just from '82 but also from 1981 levels, and the indicators for '84 are almost all green. Car-buyers seem to like the '84 models, dealer inventories have been coming down and automakers have been going into overtime production, with fourth-quarter output expected to be 50% or more above output for the last three months of 1982. One reflection of this particular outlook: Railroads have resumed ordering autoracks, and more roads are expected to join those whose orders are already on the books.

Coal will continue to be a problem. Domestic demand may pick up somewhat early next year, although many stockpiles remain high. Exports will likely continue to be depressed, because other exporting nations are making cheap coal available, because oil prices have remained stable, and because the strength of the dollar is working against U.S. exports.

What railroads have going for them is that they have been able to increase market share in key markets. What railroads will need in '84 and beyond is the ability to keep on increasing their share in these markets, while also making gains in markets where total traffic is not increasing by much if at all.

The fact is that rail carloadings in some commodity areas have dropped so sharply since the late 1970s that the only hope may be to increase share-of-market, because traffic in the absolute may never come back to its old levels.

If you index carloadings against a 1978 base number, you find that loadings in metallic ores, metals and metal products, and aggregates are running about half what they were, based upon comparisons between third-quarter 1983 and the same three-month period in '78. Loadings in the areas of primary forest products and paper/pulp are, at best, about three-fourths of what they were.

• **The emphasis must shift.** So-called smokestack industries will probably come back, somewhat. For whatever it's worth, for example, consumption of iron ore has been going up while deliveries of ore to mills have been down, and so declining inventories will eventually have to be replenished. But it is not likely that rail traffic in this basic commodity—or in certain others—will ever again match past records.

That's why it's so important that railroads concentrate on opportunity areas, and the biggest of all of these is intermodal. That's also why it's so important that railroads concentrate on productivity improvements to keep costs down—a concentration that will be tried and tested in '84 with a new round of contract bargaining coming up with the rail labor organizations.

Railroads have made much of what they have been able to do under deregulation. Outside observers have made much of what the industry has been able to do, contrasting it to the airline and motor-carrier industries, where deregulation has led to bankruptcies and something resembling chaos.

What seldom seems to be pointed out is that railroads and airlines and truck lines are different, and that the impact of deregulation has been different for several reasons, the most important of which may have to do with freedom of entry.

Deregulation has been similar for all three industries, in that it brought freedom to change prices quickly in order to react to market conditions. It also brought entry-freedom—but that has been a freedom that only an air carrier or a trucker could exercise effectively. To put it another way, an airline can go into business with a few leased planes, a few airport slots and a non-union workforce, while a trucker can begin operating with a leased tractor and a job or two—but it takes money to get into railroading unless you're

Santa Fe, a pioneer in new piggyback equipment, sees intermodal traffic as the producer of half of its freight revenues within the next few years.

going into a short line which a trunkline railroad no longer wants.

So, the business of railroading turned for the better in 1983 and it's going to be even better in '84, according to all forecasts.

● **The equipment picture.** But what does this mean for the other part of railroading, the companies that supply railroads with equipment and with materials? In all probability, it means another year of "maybe," another year of "sometime."

No group of suppliers has suffered quite so

Trainmen in St. Louis assemble UP/MP train SZB, which cuts delivery time between St. Louis and the West Coast by a full day.

Where the growth is

Year	Revenue piggyback cars loaded	Index
1957	249,065	100
1960	554,115	220
1965	1,076,280	432
1970	1,449,519	582
1975	1,307,520	525
1978	1,840,588	739
1979	1,857,705	746
1980	1,686,121	677
1981	1,752,479	704
1982	1,920,377	771
1983*	2,304,450	925

*Estimated

much during the past two years as the carbuilders. The locomotive builders, General Motors' Electro-Motive Division and General Electric, haven't prospered, but at least they have kept their doors open and some of their people employed, and their prospects are looking better for '84. Track-machine and track-products suppliers have also been able to hang in, because railroad capital and maintenance budgets for roadway-and-structures have held up fairly well. Signal-and-communications suppliers have hung on, with some railroad business but with rail transit projects really keeping them going.

For the locomotive builders, '84 should be better. The locomotives themselves will be better, with both major builders coming into the microprocessor era and with both promising (and delivering) improved fuel efficiency and improved reliability. Manufacturers of track machines and other track-related products should also gain; track was where most of the dollars went in 1983, and track is probably where most of the money will go in '84. Manufacturers in the signal-and-communications area may find '84 another year in which transit will be the bigger market—but the indications are that it's only a matter of time before the products they're coming out with, new ones and improved ones, will add up to offers that railroads can't refuse.

As for the freight-car manufacturers, '83 was the year when fall-out finally began, a fall-out that had been expected in view of low order-levels, over-capacity and surpluses of cars that were expected to continue.

This year, freight-car deliveries will reach about 5,000. That's going to be the lowest total since the years of the Great Depression; even '935 saw deliveries of almost 6,000 cars.

In this year of freight-car drought, Pullman Standard tucked it in, selling its design portfolio and its carbuilding plants to Trinity Industries; Whittaker decided to dispose of Berwick, and General American had just about made up its mind to stop manufacturing cars.

Carbuilders are looking for better things in 1984, keeping in mind that all things are relative. The estimates, as the American Railway Car Institute had collected them for a Dec. 1 forecasting meeting: For '84, on an arithmetical averaging basis, new-car orders may add up to about 19,000, with deliveries rising from the 1983 low to about 13,000 cars. As usual, the ranges in the ARCI estimates were wide-ranging. The low on new orders was about 5,000, the high was 33,000. The low on delivery estimates was 4,000 cars, the high was 26,000.

As for distribution of orders and deliveries by car-type, that remained a mystery. As of late-1983, there were a couple of utilities inquiring for coal cars, one railroad looking at between 250 and 350 covered hopper cars for cement traffic and Trailer Train looking at 500 intermodal platforms as a first order out of 2,000 platforms proposed for the new year.

Beyond that, it could be expected that tank cars would continue to be relatively strong in demand in '84 as they were in '83. It could also be expected that at some point grain covered hopper cars might be ordered again.

Builders, both locomotive and freight-car, were looking at the surplus numbers, as railroads also had to be, as 1983 came to its end.

• **The surplus fleet shrinks.** On the freight-car side, the stored-surplus fleet averaged 241,000 in 1982 and peaked at 300,000 early this year. By October, that unused fleet had gone down to approximately 167,000 cars, about what the average was in 1981. Interestingly, about 56,000 of the stored cars were boxcars that might or might not have a future, but only 14,000 were covered hopper cars.

Locomotive-storage figures told much the same story. After reaching a peak of well over 6,000 units sitting around, the idle fleet as of a few weeks ago was at approximately 3,500 units.

It stood to reason that much of this stored equipment would not again turn a wheel in revenue service. Many of the cars were old, inefficient, not suited to current traffic patterns, and in need of repair. The same might be said about a good number of the unused locomotives, even after some had been used as trade-ins or simply scrapped.

The figures translated somewhat more positively for the locomotive builders than for the carbuilders. GE, with a China order for 220 C36-7s, was forecasting a 25% increase in output in '84. EMD was looking at an '84 that would at least match '83 production—and, importantly, the vibes at LaGrange for 1985 were all positive, reflecting a confidence that continuing heavy expenditures for R&D and for improvements in manufacturing processes would pay off in the absolute and in market share.

Freight-car manufacturers were looking at the new year more cautiously. Even those with what, by current standards, could be regarded as a decent backlog were hedging as to when things might really begin to look brighter in the marketplace. As one builder put it, "I keep seeing a light at the end of the tunnel—but the tunnel keeps getting longer."

Still, cars are being built. Thrall, with Trailer Train articulated intermodal cars on order and with the American President Lines order for double-stack container well cars, will be keeping two lines in operation. Ortner continues as a force in the market for coal cars. FMC's Marine and Rail Equipment Division recently had the sample-car inspection on its latest order for the Itel Impack intermodal car, this order for Trailer Train. Portec will soon be starting construction of 100 Algola cars, and it's looking forward to building long log cars for a major paper company. ACF's Amcar Division has had the Burlington Northern order for intermodal cars. Both Portec and Thrall have orders for auto-racks. Evans Products is looking for an acceleration of tank-car programs, probably in second-half '84, while it (along with several other builders) continues to work on an intermodal prototype.

Diversification is helping some major sup-

In a buyer's market, equipment suppliers are finding that technological capability alone is not enough; they also need financing expertise.

pliers, those with significant leased-car fleets and especially those with products that go beyond the freight car. Portec, for example, is forecasting a good year for both its RMC Division and its Railway Products Division. Evans, meanwhile, sees a modest pickup for its Railway Track-Work unit, and its Monon trailer unit has been setting records by just about any measurement.

Still, more shakeout is expected in the supply industry, more than what has already occurred, because over-capacity continues to exist in most areas—and survival will go to those who are the most efficient, the most capable of adapting to the demands of a market that will likely not be buying anything in mega-quantities.

• **A slow start on '84 budgets.** What will railroads be going for in 1984 capital budgets? Hard numbers are hard to come by. A couple of roads are muffled because they are in registration with the Securities and Exchange Commission. Others are reluctant to say too much because directors have not approved '84 improvement plans.

But, from those roads that can talk about budgets, the signs are somewhat encouraging.

First, there was virtual unanimity among chief executive officers on a recently Railway Progress Institute panel that expenditures next year will at least match those for this year, with emphasis on fixed plant, and the panelists were the top people from Burlington Northern (which has had the industry's biggest programs for a couple of years), Southern Pacific, Norfolk Southern and Grand Trunk.

Second, there are these numbers which can be talked about subject to approvals and possible modifications. For the CSX roads, Chessie and Seaboard, proposals call for expenditures of $251 million for fixed plant and $95.6 million for equipment in 1984. This year, the totals will run $118.8 for plant and $73.4 million for equipment. Conrail, meanwhile, is forecasting an '84 program of $215 million for roadway and track, plus an expenditure of $130 million for other plant additions and improvements (including more than $35 million for communication and signal improvements, up from about $20 million this year). Roadway and track improvements will be in the range of what they were this year, close to 500 miles of rail, 1.3 million crossties, about 575 turnouts, and surfacing of approximately 5,800 miles. In '83, Conrail acquired 120 new locomotives, in '84 it will be getting 100; in '83, Conrail acquired no new freight cars but in '84 it will be getting 100, the locomotives valued at $101 million, the cars at $7 million.

Amtrak had a $100-million capital program this year, and the total will be about the same in FY 1984. On the equipment side, Amtrak has ordered three prototype carbody shells from Budd at a cost of $2.75 million, and it is evaluating the need for additional baggage cars; 1984 work will also include additional headend power conversions including full-length dome lounge cars for Auto Train and further rehabilitation of auto carriers needed for daily Auto Train operation.

• **The longer range.** What future markets will be remains to be seen. For example, a number of roads have made heavy expenditures in the past few years for track machines. The question, put to one builder, is: With this heavy spending, has the machine fleet been improved and renewed to the point that even this market will go into a decline? His answer: No, because there is still a lot of old and inefficient equipment being operated, and because even with good maintenance and repair practices these machines get hard use and their life may average just seven years.

As for locomotives, the optimism of both EMD and GE would seem to be justified. Forget for the moment the R&D on new forms of motive power, even though it's likely to bear fruit, some day. Remember the accomplishments that the builders have made and are continuing to make with the diesel-electric. Remember also what generations of managers at LaGrange have been saying, which is that "We're locomotive builders—whatever kinds of locomotives prove out best for different kinds of service." They're still saying that at EMD, as at GE, where research into coal-fired motive power has been made more public than perhaps elsewhere.

Then, there are the suppliers in the communications and signal field. Rail transit has been the market that has kept them going. Among the majors, neither Union Switch & Signal nor General Railway Signal sees any great hope for railroad growth in '84, even though a road or two or three will have major programs going. But, the thinking is, transit projects are going to continue, high-speed passenger lines may offer something—and the Class I railroad market will come back.

What all this adds up to, or subtracts from, are these numbers: Railroad capital spending last year totaled less than $2 billion, down from its high of $3.6 billion in 1980. Railroad capital spending this year will probably total no more than $1.8 billion. Railroad capital spending next year should be up, but not enough to approach any records.

• **Financing can make the difference.** In the past, some suppliers are saying, it was a simple case of "if you don't need it, don't buy it." Now, some say, it's a simple case of "even if you don't need it right now, buy it if the price is right." But the phrase "buy it" could be replaced by some other phrase because of some of the creative financing that has been going on.

Railroads, probably, are reasonably safe. There is enough capacity in almost all areas of the supply industry that some attrition can take place without foreseeable railroad needs going unfulfilled, or with those needs even getting a long lead-time. Survivors, among suppliers, will be the strong ones, those that prove able to ride out the ebb tide and ride the rip. Survivors will be those that maintain the R&D projects, develop production flexibility, and diversify, while promoting their capabilities by whatever means available.

Railroads, in the meantime, may at some point have to deal with suppliers who have memories—which is to say that hard dealers now may find themselves dealt last when the seller's market develops.

Buying, during the last couple of years, has had something to do with product quality. But buying has had more to do, some observers would say, with dollars—price and financing arrangements. One major equipment supplier, for instance, did all the economic studies involved with a major purchase, proved that the acquisition would be positive—and then didn't even get half of the resulting order, because a competitor came in with a better financing package. That supplier now has the financing expertise to match its technological expertise.

In the meantime, at least some suppliers of components have been announcing price increases, after having been driven down on price for many months. The theory might be that "if we don't have any business, we might as well not have it at a higher price." Nevertheless, it's a refreshing change from the old theory—made popular by several bankrupt railroads—that it's fine if you lose a little on each sale so long as you make it up on volume.

But what then about 1984? Neither railroads nor suppliers—nor railroad customers—can now say for sure. The only thing that any of them can say is that '84 will be a year of change—with, perhaps, more change than any year since deregulation became a fact. And the biggest change that may come? This new year could be the year in which the true transportation company comes into being, CSX leading the way toward formation of such a company, with its railroads, its motor-carrier operations, and its barge-line acquisition proposal. The total transportation company almost has to come into being sometime, not because competing forms of transportation want it to but because the people who buy transportation will demand it, for the sake of simplicity, economy, and efficiency. ■

NOTE

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